

# SMART INVESTMENTS



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# IDEAS TO ACTION



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# SMART INVESTMENTS: FROM IDEAS TO ACTION

In June 1999, the State Treasurer released a special edition of California’s annual Debt Affordability Report, entitled *Smart Investments*. In addition to providing an analysis of the State’s debt capacity, the report articulated a state investment policy to help ensure California’s long-term economic prosperity (to view the *Smart Investments* report, visit the State Treasurer’s website at [www.treasurer.ca.gov](http://www.treasurer.ca.gov)).

*Smart Investments* noted that California is on the cusp of an unprecedented wave of growth, with the State’s population expected to increase by 12 million residents over the next 20 years. This surge in population will equal that experienced in the boom years of the 1950s, 1960s, and 1970s combined, and will come in the context of decades of underinvestment in the public fabric of the State.

*Smart Investments* recognized that, in the face of unprecedented growth, California cannot achieve sustained economic success if the environment is degraded and if there are pockets of poverty throughout the State.

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The report outlined a strategic and fiscally prudent approach to investment that called for state infrastructure investments that support livable communities, sustainable development, and sound environmental practices. Equally important, it called for directing increased state investment to the communities left behind in the wake of California’s economic boom.

*Smart Investments* noted that the growing gap between the “two Californias” is increasingly reflected in how and where we live—with the economic and social distance ever growing between our older cities, inner-ring suburbs, and struggling rural communities on one hand, and our wealthy urban enclaves and thriving suburbs on the other.

*Smart Investments* further recognized that the two central policy goals contained in the report—promoting sustainable development patterns and fostering community revitalization—are fundamentally linked.

Providing affordable housing, broadening economic opportunity, reaching a balance between jobs and housing, preserving the environment and quality of life, and sustaining economic progress are all matters that reach across neighborhood and community boundaries.

The preservation of open spaces beyond the urban perimeter is tied to the stabilization and renewal of communities within the urban fabric. Population growth in the years ahead dictates that no community can be viewed as expendable.

Air quality is affected by commutes across regions, including the travels of residents from urban core and inner-ring suburban communities to jobs being created on the urban edge. Urban reinvestment and more sustainable suburban growth patterns can reduce auto dependence, traffic congestion, and air pollution.

High unemployment in struggling communities is exacerbated by the distance between where potential workers live and where jobs are being created. In addition, regional economic growth can be threatened by labor force imbalances.

*Smart Investments* advanced the proposition that public investment policy could play a critical role in shaping the State's growth patterns and thus contribute to long-term sustainability and broadened equality of economic opportunity for struggling communities. The report recognized that public investment was only one tool in a wide array of state public policy initiatives that must be seriously pursued to make a difference. But it is an important tool, nonetheless, given that the State is likely to commit tens of billions of dollars in infrastructure investment alone in the years ahead, and that the State of California's pension and investment portfolios hold over \$300 billion in assets (see *The Double Bottom Line: Investing in California's Emerging Markets*—a report on pension and investment policy—at the State Treasurer's website, [www.treasurer.ca.gov](http://www.treasurer.ca.gov)).

Since the release of *Smart Investments*, the State Treasurer's Office has proceeded on a number of fronts to implement the policies outlined in the report.

The following initiatives, implemented during the past 17 months, mark a fundamental shift in state policies, directing more than \$12 billion in state public program resources and investment capital over a three year period in pursuit of "smart investment" goals.

## COMMUNITY DEVELOPMENT AND INFRASTRUCTURE INITIATIVES

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In July 2000, The Orange County High School of the Arts was awarded a low-cost loan by the California Infrastructure and Economic Development Bank for its new campus located in downtown Santa Ana.

### ■ "SMART INVESTMENT" CRITERIA ADOPTED FOR LOW-COST LOCAL INFRASTRUCTURE LOANS

The State Treasurer's Office advocated for a new set of criteria for awarding more than \$1.4 billion in low-interest loans for local infrastructure projects at the California Infrastructure and Economic Development Bank, where the State Treasurer sits as a board member. The new rules, adopted in December, reward projects that help revitalize economically struggling communities and neighborhoods and support sound environmental practices.

### ■ AWARDING LOW-COST FINANCING BASED ON "SMART INVESTMENT" GOALS

The California Debt Limit Allocation Committee chaired by the State Treasurer, adopted new rules for the allocation of \$1.6 billion annually in low-cost financing for affordable housing, pollution control, job creation, and student loans. The proposal replaces a "first come, first serve" allocation method. Under the new system, projects will be prioritized based on public policy objectives that target resources to lower income communities, support sustainable development, and leverage public dollars.

### ■ CLEANING UP CONTAMINATED BROWNFIELD SITES

Senate Bill 1986 (Costa), proposed by the State Treasurer's Office and signed into law, enables the California Pollution Control Financing Authority, chaired by the State Treasurer, to finance environmental assessment and remediation of brownfields—contaminated sites in the midst of urban and rural communities. These properties—estimated to number in

the tens of thousands across California—not only pose environmental and health risks, but also represent underutilized economic assets in local communities.

Financing of environmental assessment and remediation is a critical step in returning brownfield sites to productive use and in revitalizing economically struggling neighborhoods. The program is expected to be up and running with funding available by mid 2001.



The Extra Credit Teacher Home Purchase Program will make homeownership assistance available to teachers and principals beginning in December 2000.

#### ■ EXTRA CREDIT TEACHER HOME PURCHASE PROGRAM

The Extra Credit Teacher Home Purchase Program was adopted by the California Debt Limit Allocation Committee (CDLAC), chaired by the State Treasurer, in January 2000. The program will provide \$150 million in tax credits over the next four years to help more than 4,000 teachers, willing to serve in low performing schools, purchase a home. This program will provide teachers with a credit against taxes worth approximately \$37,000 over the life of a 30 year, \$150,000 mortgage—with an annual savings of up to \$1,800 (local agencies administering the program may opt to provide low-interest mortgages in lieu of tax credits).

In September 2000, CDLAC awarded initial funding to seven local jurisdictions, with priority given to those local programs that matched state-awarded allocations with local homeownership assistance (such as assistance for down payments and closing costs). Local programs will begin making funding available to teachers and principals in December 2000.

#### ■ “SMART GROWTH” GRANT PROGRAM TO LEVERAGE REINVESTMENT CAPITAL

Assembly Bill 779 (Torlakson), sponsored by the State Treasurer’s Office and signed into law, authorizes the California Pollution Control Financing Authority, chaired by the State Treasurer, to make grants to local communities to create smart growth, community revitalization programs that leverage both private sector and foundation investment, as well as state and federal funding. These grants will provide communities with the capacity to access needed and available public and private capital resources.

#### ■ INCREASED AID TO COMMUNITY HEALTH CLINICS

The California Health Facilities Financing Authority (CHFFA), chaired by the State Treasurer, provides financing for health facilities and clinics in California. In 1999, the *HELP II Loan Program*—which provides low-interest (3 percent) loans to community health clinics serving low-income communities—was expanded with \$10 million in additional funding. This year, the Cedillo-Alarcon Community Clinic Investment Act provided an additional \$50 million to CHFFA to make grants to community clinics to expand health services for low-income families, recognizing that basic services, such as healthcare, are a key element of any effective strategy to bridge the growing gap between rich and poor in California.

#### ■ “SMART BONDS” AND PROPOSITION 1A PROVIDE OVER \$3 BILLION FOR SCHOOL CONSTRUCTION AND REPAIR

From January 1999 to September 2000, the State Treasurer’s Office made available over \$3 billion in voter approved Proposition 1A funds for school construction and repair. In

addition, the California School Financing Authority, chaired by the State Treasurer, launched the *Smart Bonds* program to help districts finance their facility needs at better terms than otherwise might be available to a district on its own.

The *Smart Bonds* program has provided nearly \$50 million in “bridge financing” to help districts accelerate needed school repair and modernization projects that had been approved for Proposition 1A bond funding, but otherwise would have had to wait until the second phase of bond funds became available in July 2000.



The Swan's Market Hall project received financing from the California Tax Credit Allocation Committee to provide 18 units of affordable housing as part of a local revitalization effort.

#### ■ TAX CREDIT PROGRAM REFORMED TO ASSURE AFFORDABILITY, ACHIEVE SUSTAINABILITY GOALS

In June 1999, the California Tax Credit Allocation Committee, chaired by the State Treasurer, adopted a new system for awarding \$450 million annually in federal and state tax credits for the construction and rehabilitation of affordable rental housing—replacing the previous administration's lottery system. The reformed program establishes a point system that, among other things, prioritizes projects in struggling neighborhoods where the housing is part of a comprehensive revitalization effort and projects that meet a set of sustainable development goals—for example, projects within walking distance of transit, schools, parks, and shopping.

## INVESTMENT INITIATIVES

#### ■ \$1 BILLION IN HOME LOANS FOR CALIFORNIANS PRODUCES STRONG YIELDS FOR STATE

One billion dollars has been committed by the State Treasurer's Office to purchase home loans made to low- and moderate-income Californians or in low- and moderate-income neighborhoods. The purchase of securitized Community Reinvestment Act loans provides new capital to lenders, allowing them to make additional loans to California homeowners.

The first purchase of \$400 million, by the State's Pooled Money Investment Account (PMIA), is providing competitive yields to PMIA, while helping to stabilize neighborhoods through increased homeownership. Standing behind the securities is Freddie Mac, with assets of over \$300 billion.

#### ■ OVER \$1 BILLION INVESTED IN URBAN COMMUNITIES

As a member of the boards of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the State Treasurer has urged greater investment by the funds in real estate development within California's urban communities, consistent with the funds' fiduciary obligations.

In 1999, CalPERS added an urban core investment initiative to its Real Estate Portfolio and has allocated \$500 million, as of August 2000, in new commitments to urban real estate ventures targeted to California. In addition, in January 2000, CalSTRS moved forward to create an urban real estate investment program resulting in an allocation of \$750 million. Both investment programs are designed to give the pension funds market rates of return, while creating investment and economic activity in California's urban neighborhoods.

■ **INVESTMENT IN BUSINESS ENTERPRISES IN COMMUNITIES OF ECONOMIC NEED**

In June 2000, CalPERS approved the California Initiative, a \$500 million investment fund targeted to businesses locating and expanding in underserved communities—with the double bottom line goals of achieving risk-adjusted, market returns for the pension system, while broadening economic opportunity. The initiative will be structured to engage strong private sector investment partners and to leverage additional capital.



Broadway Federal Bank, located in South Los Angeles, received its first state deposit in 1999, helping to boost small business and home mortgage lending.

■ **INCREASED STATE DEPOSITS IN CALIFORNIA BANKS**

The State Treasurer's Office has put more of the taxpayers' money—managed through the State's PMIA—to work here in California by increasing deposits of state funds in community banks. The program assures a yield to the State that is above the Treasury Bill rate, and deposits are more than fully collateralized. The state deposits provide lenders funds to boost small business and home mortgage lending in California communities.

From January 1999 through August 2000, an additional \$1.8 billion was deposited in California financial institutions and the number of participating entities increased from 35 to 94.

■ **DEPOSITING PUBLIC FUNDS IN FINANCIAL INSTITUTIONS COMMITTED TO COMMUNITY REINVESTMENT**

Assembly Bill 2708 (Wesson), proposed by the State Treasurer's Office and signed into law, incentivizes investment in economically distressed neighborhoods by requiring state and local governments to deposit their funds in secure financial institutions that are investing in lower-income communities. This law ensures that taxpayers' moneys will help provide investment capital for those California communities that need it most.